Memorandum

CITY OF DALLAS

DATE October 9, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **City of Dallas Affordable and Market Rental Rates**

Low Income Housing Tax Credits (LIHTC) are a critical financing tool that supports affordable housing development. Public perception of LIHTC varies based on one's individual experience with LIHTC projects. This memo is intended to address questions raised in recent months on affordable, market, and income-restricted rental rates. It also provides a staff perspective on the differences between these rates and how we should consider using LIHTC financing in light of these differences.

Background

The LIHTC program, administered by the Internal Revenue Service and allocated at the state level by Texas Department of Housing and Community Affairs (TDHCA), provides tax credits to rental developments that restrict incomes at the property to residents earning at or below 60% area median income (AMI). Developers only earn tax credit equity for the portion of the units that are restricted for low-income households. The federal government recently changed the program to allow for income averaging wherein developers can restrict rents from 0% to 80% AMI for an average of 60% AMI to allow for a more diverse mix of incomes and still be eligible to receive tax credits. Developers can include non-income restricted or market rate units in the development but do not receive tax credit equity for this portion of the development.

Market rate or non-income restricted units are not eligible for tax credit equity, therefore, most LIHTC developments are not economically feasible when including more than 5% to 10% market rate units. The majority of applications received through the RFA process include rental rates averaged between 30% to 80% AMI with only a nominal amount, if any, of non-income restricted units. This has raised concerns over whether or not these developments 1) should be classified as mixed-income and 2) advance the goals of the CHP. An analysis of the rental rates throughout the City shows that there is only a marginal difference between the income restricted rental limits required by the LIHTC program and market rents.

Issue

The published 2020 LIHTC program income restrictions for the City, broken down by AMI and bedroom size, are as follows:

BR/BA	50% AMI	60% AMI	70% AMI	80% AMI
1-BR/1-BA	$808	$970	$1,132	$1,294
2-BR/2-BA	$970	$1,164	$1,358	$1,552
3-BR/2-BA	$1,120	$1,344	$1,568	$1,793
4-BR/2-BA	$1,250	$1,500	$1,750	$2,000

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The Department of Housing and Urban Development (HUD) publishes fair market rents for the City for use in its HOME and Community Development Block Grant programs. The 2020 published fair market rents are as follows:

BR/BA	Market
1-BR/1-BA	$1,093
2-BR/2-BA	$1,314
3-BR/2-BA	$1,727
4-BR/2-BA	$2,262

Staff have also received “on the ground” market rental rate data from various market studies conducted for proposed LIHTC developments. The studies showed that market rental rates are similar, and in fact less, than HUD’s published fair market rents:

BR/BA	Market
1-BR/1-BA	$1,046
2-BR/2-BA	$1,314
3-BR/2-BA	$1,424
4-BR/2-BA	$1,663

In comparing market rents with rental rates restricted for 60% to 80% AMI, the LIHTC units have a higher average than market rents. The monthly cost of 80% AMI restricted rates generally allow a potential renter to consider purchasing a home in many areas of the City therefore making it difficult for multifamily developers to charge in excess of these rates. Furthermore, the close alignment of market rates and restricted rates makes it difficult for developers to include non-income restricted units in their developments since they do not receive tax credit equity and provide minimal additional cashflow.

As we contemplate what constitutes a “mixed-income” development, we should take into consideration the rental data described above. Because market rates and affordable/income restricted rates are so similar, we must consider whether the value of non-income restricted units outweighs the cost of producing affordable housing. While the CHP’s LIHTC policy does award additional points for the inclusion of non-income restricted units when evaluating competitive 9% LIHTC applications, it does not require that a development include such units when granting Resolutions of No Objection.

In addition to conducting an analysis of the rental rates themselves, it is also important to understand the economic profile of those served by the LIHTC program. Though the program has “low-income” in its name; most individuals and families participating in the program have a range of incomes that extends far beyond low-income. Here are the 2020 LIHTC program income restrictions based on family size:

	Family Size			
% of AMI	1	2	3	4
80%	$ 48,300	$ 55,200	$ 62,100	$ 68,950
75%	$ 45,255	$ 51,720	$ 58,185	$ 64,650
70%	$ 42,238	$ 48,272	$ 54,306	$ 60,340
65%	$ 39,221	$ 44,824	$ 50,427	$ 56,030

60%	$ 36,240	$ 41,400	$ 46,560	$ 51,720
50%	$ 30,200	$ 34,500	$ 38,800	$ 43,100
30%	$ 18,100	$ 20,700	$ 23,300	$ 25,850

This array of incomes includes many of our first responders, teachers, and even a large portion of City staff. The LIHTC program provides equity to developers to build and manage Class A apartments with wrap-around services like after school tutoring, financial literacy courses, contracted job placement programs, health fairs, planned community/social events, and other services not provided at typical market rate development. Though LIHTC projects have historically contributed to blight in communities across the city, when used appropriately, LIHTC are a critical financing tool to provide decent, safe, and affordable housing.

Recommendation

It's important to keep in mind that the area median income (AMI) in the City of Dallas is $53,515. Income is the fundamental determinant which drives housing development. At this level of AMI (lower in certain sub-markets) combined with developer financial requirements, it's extremely difficult to achieve rent levels beyond 80% of AMI particularly when observed market rate units are hovering around 70% to 75% of AMI.

The City should continue to support high quality LIHTC developments that comply with the CHP and encourage economically feasible mixed-income developments. When analyzing a LIHTC application, many factors must be considered, including the area median income of residents and how it factors into the creation of housing and achievable rent levels. With area median income as the basis, the notion that the number of non-income restricted units determines the quality of the project is not reasonable and ignores the reality of the income issue. We encourage our neighborhood groups, city boards, commissions and City Council to consider the issues described in this memo when considering LIHTC projects and their proposed income mix are presented.

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